



U.S. Department of Housing and Urban Development  
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Regional Inspector General for Audit

**MEMORANDUM NO: 2003-PH-1801**

March 27, 2003

**MEMORANDUM FOR:** Mary Ann Henderson, Director, Multifamily HUB, 3BHMLAS

**FROM:**

Daniel G. Temme, Regional Inspector General for Audit,  
Mid-Atlantic, 3AGA

**SUBJECT:**

Royal Arms Apartments  
Front Royal, VA  
Management Improvement Operating Funds

**INTRODUCTION**

In response to a complaint, we completed a limited review of Royal Arms Apartments, a Section 8 Multifamily project. The purpose of our review was to determine if the allegations in the complaint had merit. Specifically, our objectives were to determine whether the sale of the property and subsequent transfer of the Management Improvement Operating Funds was authorized by HUD, did not violate any HUD regulations and did not financially benefit the new owners. Our review showed the allegations in the complaint had no merit.

**OBJECTIVE, METHODOLOGY AND SCOPE**

In conducting our audit we:

- Reviewed and analyzed the Management Improvement Operating Fund agreement, the sales agreement, and HUD files related to the sale.
- Reviewed HUD's Office of Investigations findings regarding the sale and transfer.
- Interviewed responsible staff from HUD's Multifamily Housing Program Center, HUD's Office of Investigations and the complainant.

We performed the work between January 13, 2003 and January 31, 2003.

## **BACKGROUND**

Royal Arms Apartments is a Section 8 Multifamily project located in Front Royal, Virginia. The owners of the property applied for and were awarded a Management Improvement Operating Funds agreement in July 1994 as an incentive to extend their Section 8 contracts. Through this agreement, HUD provided Front Royal Associates, L.P. \$781,260 to complete a schedule of capital improvements to the apartments. The scheduled improvements included new windows, front entranceway upgrades, replacement of damaged steps and walkways, and replacement of kitchen cabinets.

In February 2001, Front Royal Associates, L.P. agreed to sell the property to Royal Arms Associates, L.P. with a settlement date of April 10, 2002. At the time of the sale, \$750,511 remained in the management improvement account and was transferred to the new owners. The complainant alleged the transfer of the management improvement funds from Front Royal Associates, L.P. to Royal Arms Associates, L.P. was not approved by HUD and violated HUD regulations. Further, the complainant believed the transfer of the reserves negated the original Management Improvement Operating Funds agreement and resulted in HUD losing all control over how the money was spent, thus benefiting the new owners.

In April 2002, HUD's Office of Investigation reviewed the allegation and found no evidence of criminal wrongdoing in the Royal Arms Case.

## **RESULTS OF REVIEW**

We found the allegations addressed in the complaint had no merit. HUD was aware of and approved the transfer of the management improvement reserves as part of the sale of Royal Arms Apartments. There were no HUD regulations prohibiting the sale and transfer and, as such, it was up to HUD to approve or disapprove the transfer. Further, HUD did not lose control over the funds. As part of the sale, HUD required the new owners to use the reserves for only authorized purposes and we found the new owners had in fact fully expended the funds as required by the agreement.

Our review did not disclose conditions requiring corrective action. Therefore, we have not made any recommendations.

## Appendix A

### **DISTRIBUTION OUTSIDE OF HUD**

The Honorable Joseph Lieberman, Chairman, Committee on Governmental Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340 Dirksen Senate Office Bldg., United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn H.O.B., House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn H.O.B., House of Representatives, Washington, DC 20515

Mr. Andrew Cochran, House Committee on Financial Services, 2129 Rayburn H.O.B., Washington, DC 20515

Mr. Clinton C. Jones, Senior Counsel, Committee on Financial Services, U.S. House of Representatives, B303 Rayburn H.O.B., Washington, DC 20515

Mr. Steve Redburn, Chief Housing Branch, Office of Management and Budget, 725 17<sup>th</sup> Street, NW, Room 9226, New Executive Office Bldg., Washington, DC 20503

Mr. Stanley Czerwinski, Director, Housing and Telecommunications Issues, United States General Accounting Office, 441 G Street NW, Room 2T23, Washington, DC 20548

Ms. Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn House Office Bldg., Washington, DC 20515

Ms. Kay Gibbs, Committee on Financial Services, U.S. House of Representatives, B303 Rayburn H.O.B., Washington, DC 20515

Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington, DC 20515

Mr. Armando Falcon, Director, Office of Federal Housing Enterprise Oversight, 1700 G Street, NW, Room 4011, Washington, DC 20552

The Honorable J. Randy Forbes, Member of Congress, House of Representatives, 636 Cedar Road, Suite 200, Chesapeake, VA 23322